

Career Concerns in Teams¹

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Abstract:

We study the impact of changes in the commitment power of a principal on cooperation among agents, in a model in which the principal and her agents are symmetrically uncertain about the agents' innate abilities. When the principal *cannot* commit herself to long-term wage contracts, two types of implicit incentives emerge. First, agents become concerned about their perceived personal productivity. Second, agents become more reluctant to behave cooperatively – they have an incentive to « sabotage » their colleagues. Anticipating this risk, and in order to induce the desired level of cooperation, the principal must offer more *collectively* oriented incentive schemes. We also show that temporary workers are not affected by the sabotage effect and that as a result, their incentives are more individually oriented.

Key Words: Teamwork, Career concerns, Sabotage, Commitment, Collective orientation of incentive schemes.

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